GOVERNMENT OF INDIA
POWER
LOK SABHA

UNSTARRED QUESTION NO:2815
ANSWERED ON:15.03.2001
PRIVATE FOREIGN INVESTORS IN POWER SECTOR
VINAY KUMAR SORAKE

Will the Minister of POWER be pleased to state:

(a) whether Independent Power Producers Association in India representing private foreigninvestors in power sector in India, is worried about the Centre`s decision to impose Dividend Distribution Tax and Minimum Alternate Tax;

(b) if so, the reaction of the Government thereon;

(c) the status of 18 power projects being financed by IPP members;

(d) whether such imposition of taxes will cause dearrangement in project schedules;

(e) if so, whether comprehensive reform-based package is likely to be introduced to retain the confidence of overseas investors in Indian power projects; and

(f) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF POWER (SHRIMATI JAYAWANTI MEHTA)

(a) & (b) : The Government has received proposals from various Chambers of Commerce,Trade Bodies and other organizations including from the Independent Power Producers`Association for exemption from payment of Minimum Alternate Tax (MAT) and from payment of Dividend Distribution Tax (DDT). These proposals have been considered by the Governmentand in the Finance Bill 2001, the Government has proposed the following :

(i) Surcharge on Minimum Alternate Tax is proposed to be reduced to 2% for domestic companies. No surcharge is levied on foreign companies.

(ii) Dividend Distribution Tax is proposed to be reduced to 10%.

(c) & (d) : As on date sixteen private power projects are under various stages of construction. Tax holidays for a period of ten years out of the initial 15 years has been extended to power projects commencing generation of power on or before 31.3.2006.

(e) & (f) : With a view to find a solution to the escrow problem in the eighth meeting of the Crisis Resolution Group (CRG) held on March 30, 2000 under the chairmanship of Minister of Power, various alternatives to resolve the escrow issue were discussed. In this meeting, it was decided that IPP financing should be linked with the progress of reforms undertaken by the State Governments.To facilitate IPP power projects to achieve financial closure, the Ministry of Power has proposed to consider a reform based security mechanism as an alternative to escrow to provide financial comfort to the lenders and IPP promoters. The Financial Institutions have also agreed to undertake financing of IPPs on the basis of a legally binding agreement to be made by the State Governments to provide escrow before Commercial Operation Date instead of the present practice of escrow at the time of financial closure.